

CHAPTER X. PILOT FINANCIAL AND NON-FINANCIAL COSTS AND BENEFITS

In this chapter, the costs and benefits, both financial and non-financial, of using the Basic Pilot program are explored from the perspective of the Federal Government, employers, and employees.

A. BACKGROUND

Understanding the costs and benefits associated with the current Basic Pilot system is a critical part of the evaluation because it allows an estimate of the cost-effectiveness of the pilot effort and provides information needed for estimating the costs that might accrue if an expanded worksite verification program were contemplated in the future. The evaluation team based its estimates on four data sources: (1) interviews with and data provided by INS Headquarters officials, (2) site visits to the INS immigration status verification unit in Los Angeles and the Los Angeles SSA office located near a relatively large number of pilot employers, (3) the mail survey of pilot employers, and (4) personal interviews with employees. All these estimates are somewhat subjective. Although much of the cost information provided by Federal officials is based on actual financial records, subjective judgments often had to be made on how to allocate costs between the Basic Pilot program and other related programs. The cost information provided by employers is sometimes based on actual records and sometimes on best estimates. Most of the employee cost estimates are best-guess estimates.

B. FEDERAL COSTS¹²⁶

INS Headquarters staff maintain information on the costs of the pilots. These costs cover both INS and SSA, since INS reimburses SSA for expenses associated with the pilot through an interagency agreement.

Exhibit X-1 breaks down the total Federal cost for the Basic Pilot program. INS officials estimate that approximately \$9.6 million was spent between January 1997 and April 2000.¹²⁷ This report breaks this overall figure into two broad types of costs:

¹²⁶ Additional information about the details of the cost estimates is contained in *Methodological Note: Federal Government Cost Estimates* in Appendix E.

¹²⁷ Many expenses are estimated, and the evaluation team made judgments about allocating certain expenses among the various pilot programs and between the pilots and other programs. In making this allocation, the evaluation team decided not to include any systems development work that was also necessary to support verification of eligibility for certain government benefits programs. This systems development work would have been required with or without the pilot programs. Among these excluded costs were development costs for the Verification Information System (VIS) (\$6.25 million) and the Web Access Method of Employment Verification (\$510,000). VIS and Web Access comprise the new equipment and software platform that will support Systematic Alien Verification for Entitlements (SAVE) and employment verification pilot processing in the future.

- *Start-up costs:* These are one-time costs needed to implement the program, such as the costs associated with developing training manuals and writing software. These costs do not depend on the size of the Basic Pilot program.
- *Operating costs:* These are recurring costs, such as salaries for Immigration Status Verifiers (ISVs), that are incurred in operating the system. Many of these costs are affected by the size of the Basic Pilot program.

This breakdown is an important first step in understanding the likely long-term costs of employment verification if the Basic Pilot program were to be expanded to include additional employers.

Exhibit X-1: Estimates of Basic Pilot Costs to the Federal Government (in thousands)

Start-up Costs		Total Costs
Basic Pilot software and system development		\$265
Basic Pilot Integrated software and system development		545
Development of computer-based tutorials		175
Development of Basic Pilot manuals and pilot notices		50
Publicity campaign (ads in newspapers, radio time)		500
SSA implementation costs		500
Computer equipment – Headquarters and Los Angeles Status Verifiers		275
Total		\$2,310

Operating Costs (1/97-4/00 unless otherwise specified)	Annual Costs	Total Costs
INS Headquarters salaries	\$1,117	\$3,630
INS field personnel	923	3,000
SSA salaries for district office staff, phone, and travel	121	392
Verification query costs	66	160
Production of computer disks, manuals, and pilot notices	25	60
Systems operation and maintenance	10	24
Total	\$2,262	\$7,266

Grand Total		\$9,576
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1. START-UP COSTS

Based on cost information provided by INS officials, the Federal Government has spent \$2.3 million on system development and other start-up costs to date. As shown in Exhibit X-1, approximately \$800,000 was spent on computer software and system development. Another \$225,000 was spent on the development of training materials, including the Basic Pilot manual and a computer tutorial. A total of \$500,000 was spent on publicity campaigns, and \$275,000 was spent on computer equipment for ISVs and Headquarters staff involved with the Basic Pilot system.

2. OPERATING COSTS

Most of the Federal expenditures for the Basic Pilot system to date have been for operating costs. INS estimates that these operating costs total a little over \$7 million, or approximately \$2.3 million a year. To project costs for possible future employment programs, the evaluation team had to determine what these operating costs are and what factors are likely to affect the amount of these costs. This section provides a brief explanation of these operating cost estimates. All estimates should be considered approximate.

a. INS HEADQUARTERS SALARIES AND EXPENSES

The single largest operating expense to date has been for INS Headquarters staff. These individuals develop policy and technical systems for the Basic Pilot program, recruit new employers to the pilot, and help them implement the system (except for the technical assistance provided by a contractor). Much of this Headquarters work can be viewed as annual fixed costs. The remainder of the work appears to be related to the number of total employers or the number of new employers. The evaluation team estimates that annual Headquarters costs are distributed as follows: \$950,000 in annual fixed expenses; \$47 a year per participating establishment and \$212 per year per new establishment recruited to the program (Exhibit X-2).

Exhibit X-2: Breakdown of Annual Operating Costs for INS Headquarters

	Annual Costs (in thousands)	Cost Per Unit	Number of Units
Fixed costs	\$949		
Variable costs (proportional to the number of)			
Establishments	34	\$47	709
New establishments	134	212	631
Total	\$1,117		

b. INS FIELD PERSONNEL

INS field personnel have two primary functions in the Basic Pilot program: (1) ISVs in the Los Angeles District Office determine the work-authorization status of cases that are referred for INS secondary verification and (2) field staff in other INS offices handle “walk-in” cases and provide the Los Angeles ISVs with information on cases handled in their offices that are not up-to-date in the automated system. INS estimates that the total field office costs for the Basic Pilot program for January 1997 through April 2000 were approximately \$3 million.

On the basis of interviews with ISVs in the Los Angeles District Office, the evaluation team estimates that it costs a little more than \$6 to resolve each case sent to INS for secondary verification. This cost includes salaries, fringe benefits, and overhead costs incurred by the Los Angeles ISVs and their supervisors, plus an estimate of additional field office staff time to resolve some of these cases. The evaluation team assumes that

additional funding for field office staff includes an annual cost of approximately \$1,000 per implementing INS district office to cover costs associated with managing the pilot and other incidental expenses not included in the per-case cost and \$2 per participating establishment to cover employer questions directed to ISV staff (Exhibit X-3).

Exhibit X-3: Breakdown of Annual Operating Costs for INS Field Personnel

	Annual Costs (in thousands)	Cost Per Unit	Number of Units
Fixed costs	\$825		
Variable costs (proportional to the number of)			
Establishments	1	\$2	709
INS secondary verification cases	47	6	7,594
INS implementing offices	50	1,000	50
Total	\$923		

c. SSA SALARIES AND EXPENSES

The third most costly component of operating expenses is SSA salaries and expenses. On the basis of discussion with SSA district office staff, the evaluation team estimates that the per-case costs for resolving SSA referrals to the district office are approximately the same as those for cases requiring secondary verification by INS. The evaluation team has accordingly used \$6 as an estimate of the cost per case for cases referred to SSA. Additional cost estimates for SSA are \$100 per office implementing the program and \$50,000 for annual fixed costs to operate the program (Exhibit X-4).¹²⁸

Exhibit X-4: Breakdown of Annual Operating Costs for SSA

	Annual Costs (in thousands)	Cost Per Unit	Number of Units
Fixed costs	\$50		
Variable costs (proportional to the number of)			
SSA offices	30	\$100	300
Visits to SSA offices	41	6	6,574
Total	\$121		

d. VERIFICATION QUERY COSTS

Verification query costs are related to the automated system and can be assumed to be a function of the number of system queries, where a query exists whenever an employer enters a request for information into the system (note that a case may need more than one employer query for resolution). INS is charged \$0.28 per query by the contractor that manages the system. The remainder of INS's total estimated cost (approximately \$3,000) is assumed to be for fixed annual costs (Exhibit X-5).

¹²⁸ These costs are lower than what SSA has billed INS for services, as discussed in Appendix E.

Exhibit X-5: Breakdown of Annual Operating Costs for Verification Queries

	Annual Costs (in thousands)	Cost Per Unit	Number of Units
Fixed costs	\$3		
Variable costs (proportional to the number of)			
Queries	64	\$0.28	227
Total	\$67		

e. PRODUCTION OF COMPUTER DISKS, MANUALS, AND PILOT NOTICES

Costs for producing materials such as computer disks, manuals, and pilot notices are a function of the number of new sites added to the Basic Pilot program during the year. The evaluation team estimates these costs to be approximately \$30 per new employer, plus fixed costs of approximately \$6,000 annually (Exhibit X-6).

Exhibit X-6: Breakdown of Annual Operating Costs for Computer Disks, Manuals, and Pilot Notices

	Annual Costs (in thousands)	Cost Per Unit	Number of Units
Fixed costs	\$6		
Variable costs (proportional to the number of)			
New establishments	19	\$30	631
Total	\$25		

f. SYSTEMS OPERATION AND MAINTENANCE

Systems costs are primarily a function of the number of problems encountered in operating and maintaining the verification system. It is reasonable to assume that increasing the size of the program will increase the number of problems, but that the increase in cost will not be as great as the increase in the number of cases. For estimation purposes, the evaluation team assumes a cost of \$2 per establishment, plus approximately \$8,600 in fixed annual costs (Exhibit X-7).

Exhibit X-7: Breakdown of Annual Operating Costs for Systems Operation

	Annual Costs (in thousands)	Cost Per Unit	Number of Units
Fixed costs	\$9		
Variable costs (proportional to the number of)			
Establishments	1	\$2	709
Total	\$10		

g. TOTAL OPERATING COSTS

It is possible to summarize the preceding costs into a general formula in which total operating costs for the Basic Pilot program are seen as the sum of a fixed annual cost plus several variable costs. This is done in Exhibit X-8.

Exhibit X-8: Breakdown of Annual Operating Costs for All Categories

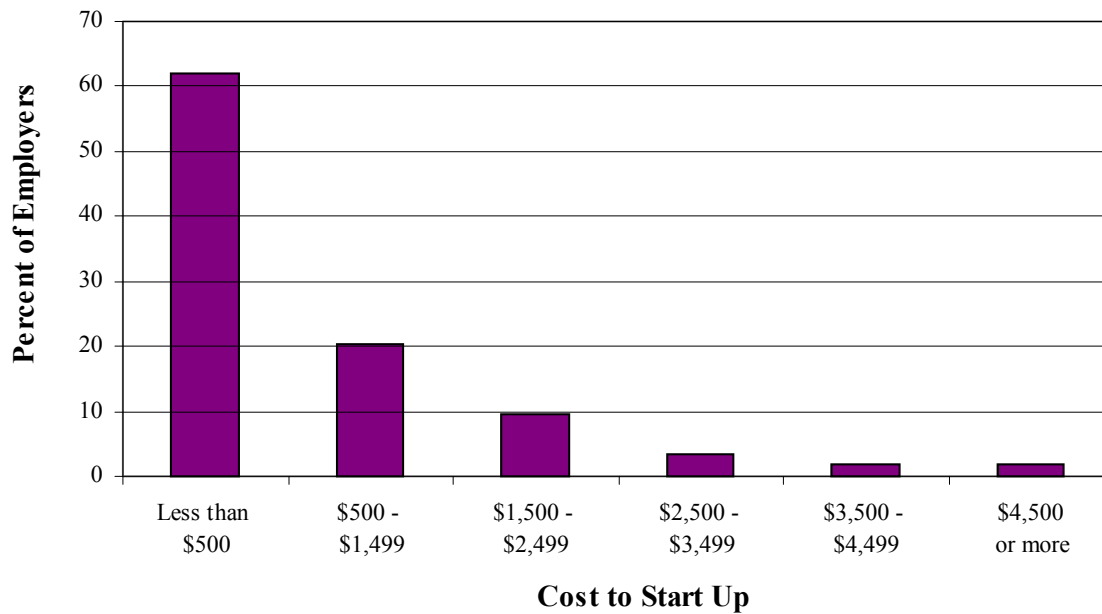
	Annual Costs (in thousands)	Cost Per Unit	Number of Units (in thousands)
Fixed costs	\$1,841		
Variable costs (proportional to the number of)			
Establishments	36	\$51	0.7
New establishments	153	242	0.6
SSA offices	30	100	0.3
INS offices	50	1,000	0.1
Employer queries	64	0.3	227.1
SSA referrals	41	6	6.6
INS second-stage referrals	47	6	7.6
Total	\$2,262		

C. EMPLOYER COSTS

1. START-UP COSTS

Pilot employers who installed the Basic Pilot system were asked to estimate their costs to implement the system. Their estimates ranged from \$0 to \$15,000. The mean cost per employer was \$777; however, there was considerable variation in these estimates, as seen in Exhibit X-9. Sixty-two percent of pilot employers reported that they spent less than \$500; another 20 percent reported spending \$500 to \$1,499. Ninety-two percent reported that they spent less than \$2,500.

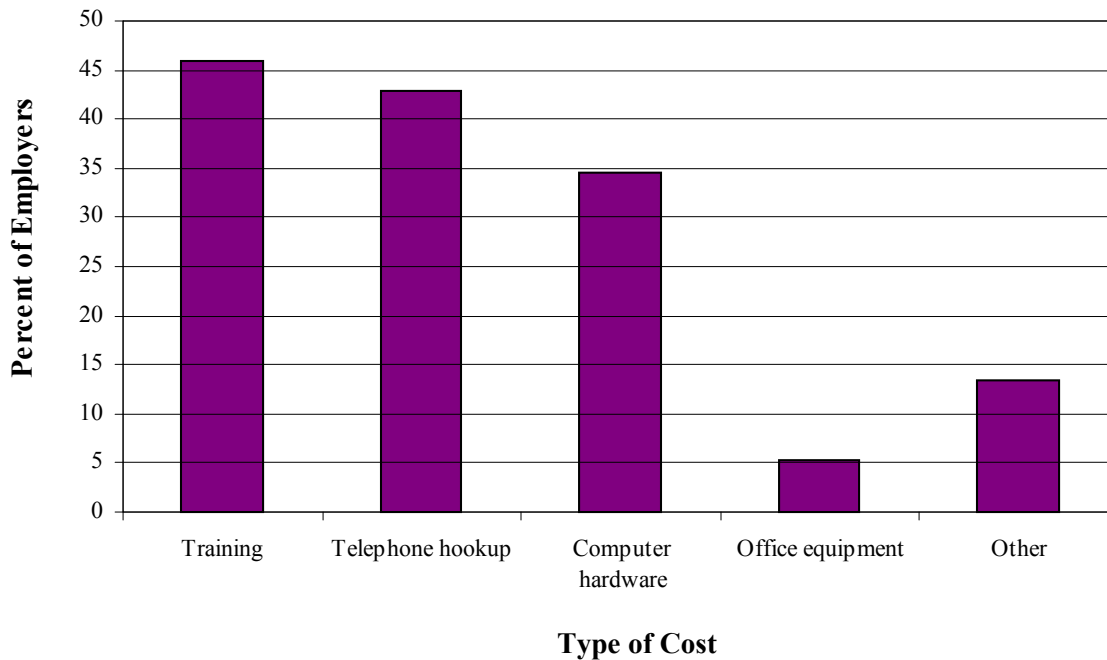
Exhibit X-9: Establishment Start-up Costs for Basic Pilot Program



SOURCE: Employer Mail Survey

When asked what types of costs they incurred in setting up the Basic Pilot program, employers most frequently mentioned training costs. More than a third of the respondents mentioned telephone hookup costs and computer hardware costs (Exhibit X-10).

Exhibit X-10: Establishment Start-up Costs for Basic Pilot Program by Type



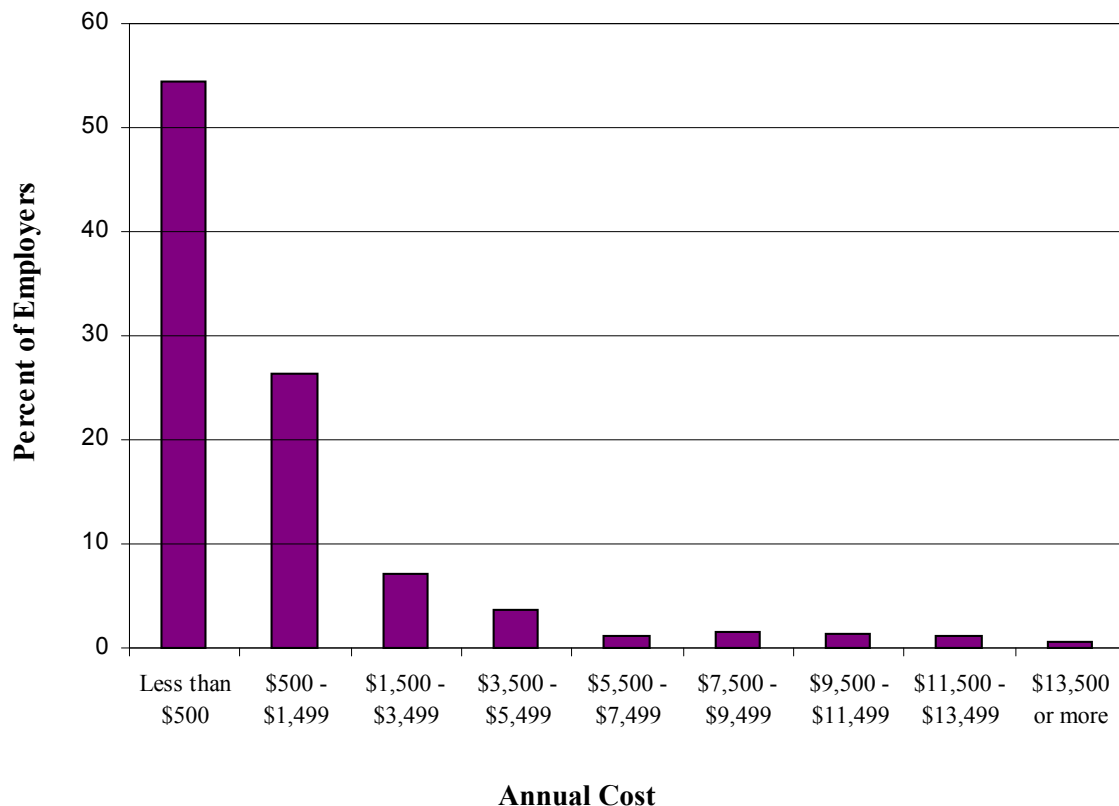
SOURCE: Employer Mail Survey

As noted above, not all costs associated with a new system are easily quantifiable. Establishments also incur indirect costs, such as the reassignment of employees, additional recruitment, and delayed production. When asked how burdensome these costs were, most of the pilot establishments (58 percent) responded that indirect costs were not a burden. Another 31 percent of establishments claimed that these costs constituted only a “slight burden.” However, 10 percent of establishments claimed that these costs constituted a “moderate burden” and 1 percent indicated an “extreme burden.”

2. OPERATING COSTS

All pilot employers who had used the Basic Pilot system as of the cut-off date for selecting the sample and who reported that they were using the system at the time they completed the mail survey were asked to estimate their annual maintenance costs. The estimates for these costs ranged from \$0 to \$33,000. The mean cost per employer was \$1,800; however, there was considerable variation in these estimates (Exhibit X-11).

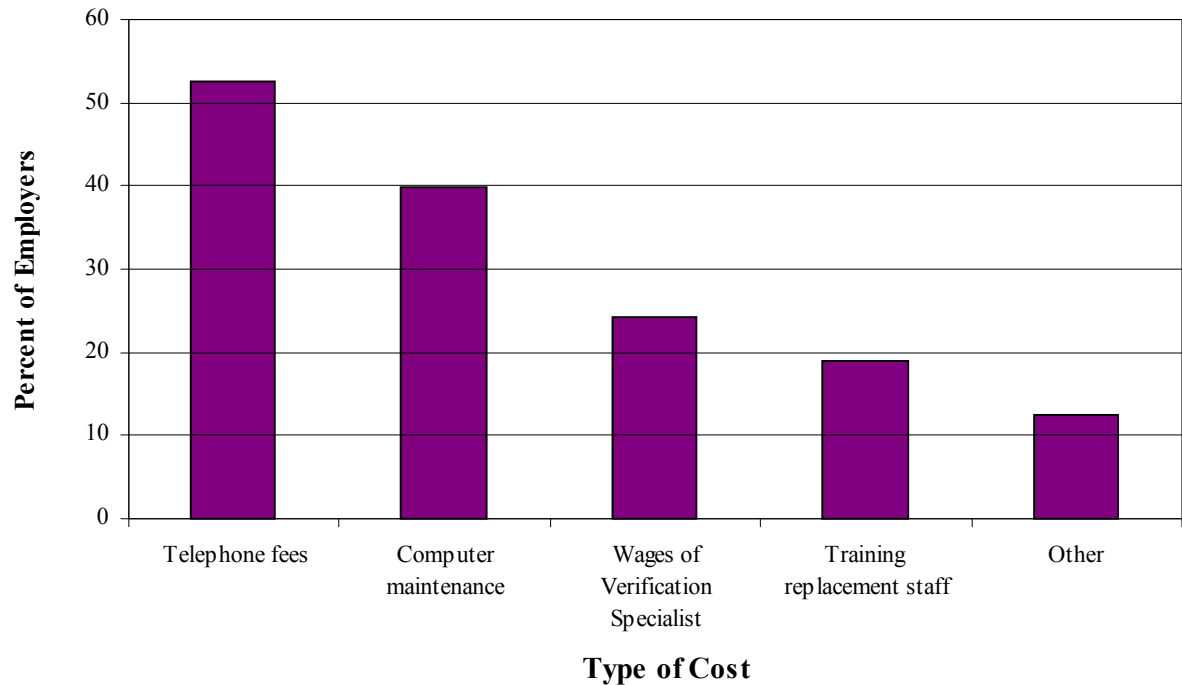
Exhibit X-11: Annual Establishment Operating Costs for Basic Pilot Program



SOURCE: Employer Mail Survey

The most frequently mentioned operating cost associated with maintaining the pilot program consisted of telephone charges (52 percent), followed by computer maintenance (40 percent). Approximately 24 percent of respondents mentioned costs of wages for Verification Specialists, and 19 percent had costs for training replacement staff (Exhibit X-12).

Exhibit X-12: Types of Operating Costs Reported for Basic Pilot Program



SOURCE: Employer Mail Survey

As for types of operating costs, most establishments reported a slight burden (30 percent) or no burden (62 percent) associated with the indirect costs¹²⁹ of maintaining the Basic Pilot program. Seven percent reported a moderate burden, while 1 percent indicated an extreme burden.

D. EMPLOYEE COSTS

Costs incurred by employees, unlike those incurred by employers and the Federal Government, are not voluntary. The Federal Government therefore has a responsibility to ensure that employee costs incident to the pilot are not unduly burdensome. Financial and non-financial costs to employees participating in the Basic Pilot program appear to be lower than many originally anticipated. The employee interviews and the analysis of the Basic Pilot transaction database both indicate that approximately 4 percent of pilot employees contacted SSA or INS to resolve problems with their work-authorization status.¹³⁰ The number of work-authorized employees quitting after receiving a tentative nonconfirmation is also lower than many had anticipated. Seventy-nine percent of pilot

¹²⁹ Indirect costs are costs that are not identifiable with a specific function, product, or activity. For example, indirect costs associated with setting up the employment verification program can include reassignment of employees, additional recruitment, and delayed production.

¹³⁰ The employee questionnaire asked: "After you turned in this form [INTERVIEWER show Form I-9], were you told there were any problems with your work documents or your eligibility to work in the United States?"

employees who were told of work-authorization problems (n=101) decided to clear them up – and some of the remaining 21 percent of these individuals may not have been work-authorized or were already planning to quit for reasons unrelated to the employment verification program.

Although the employee costs are lower than predicted, they are still a matter of concern to those employees who experience these problems, to their employers, and to the Federal Government. This concern is heightened if one restricts the analysis to foreign-born employees, 10 percent of whom reported that they were told they had work-authorization problems. Further, when the evaluation team compared responses from the employee interviews with results from the transaction database for the same employees, it appeared that employers do not always inform employees about tentative nonconfirmation results. In some of these cases, the employer is prescreening job applicants; in other cases, the employer may terminate the employee without explaining why. The unseen costs to these employees are not included in the cost estimates. In other cases, employees continue to work without resolving the tentative nonconfirmation.¹³¹

One tangible cost of the program for employees is the cost incurred in resolving work-authorization problems. Seventy-nine percent of employees who were told that they had work-authorization problems decided to clear them up. Most of these employees had to visit an SSA office, since SSA offices only handle changes to information in their databases in person. Employees who had to contact INS were encouraged to do so by telephone or fax but could also go in person.¹³²

Among the employees who contacted SSA or INS to clear up their work-authorization problems (n=67), close to half reported using personal time. The amount of personal time spent resolving these problems ranged between 1 and 16 hours, with an average of 4 hours per employee. Forty-five percent needed time off from work, and more than a third missed time at work. The work time lost ranged between 1 and 16 hours, with an average of 5 hours.¹³³ However, only 10 percent of those who decided to clear up their work-authorization problems reported that they were paid for the time they missed from work. Fourteen percent said that clearing up their work-authorization problems was hard on them because of household and other life responsibilities.

Only 7 percent (n=11) of employees who decided to clear up their work-authorization problems reported that they spent money in doing so. Among these employees, the reported amount spent to clear up problems ranged between \$2 and \$2,000, with an average of \$335. Interpreting these figures, however, is difficult. On the one hand, it is

¹³¹ In at least some cases that appear on the database as unresolved, the employee had resolved the problem but the resolution was not recorded in the transaction database because SSA or INS staff did not realize that the employee was a pilot employee.

¹³² These estimates about experiences visiting SSA or INS offices are based on interviews with 67 employees who actually contacted SSA or INS.

¹³³ In some cases, this was because the employee was not allowed to start work until the problems were resolved.

likely that many of the reported costs of visits to INS and SSA are, in fact, costs to resolve problems that would have had to be resolved in the absence of the pilot program. For example, some of the cases that were resolved at the third stage involved employees who had expired employment authorization documents. Even in the absence of the Basic Pilot program, their employers should have found them to be non-work-authorized.¹³⁴ On the other hand, employees may have neglected to include costs that would be reasonable to count. For example, they may not have added in costs associated with work hours missed. They also may not have been aware of employer actions (such as withholding training) that negatively affected them. Note that estimated costs are based on cost reports from the few employees reporting this information.

Employees reported going to INS and SSA to resolve their cases more frequently than would appear to be the case based on discussion with Federal officials. This discrepancy has two apparent sources. First, some employees resolving pilot-related problems are not processed as pilot employment verification cases, and thus INS's ISVs and SSA's Service Representatives are underestimating their workload.¹³⁵ A second reason for the discrepancy is that employees sometimes reported going to SSA or INS to resolve problems that were not uncovered by the Basic Pilot verification. When it was clear from the interview that this was the situation, those cases were excluded from the cost estimates.

The failure of employers to follow required procedures resulted in burden to employees. The following were chief among the problems reported by employees:

- *Loss of work:* Forty-one percent of pilot employees who were told that they had problems with work authorization reported in the interview that they were not allowed to continue working while they cleared up problems. This is contrary to Basic Pilot procedures, which state that employers must not take adverse actions against employees while they are resolving problems with work authorization.
- *Pay cuts:* Eighteen percent of pilot employees who decided to clear up their work-authorization problems (n=72) reported in the interviews that their pay was cut while they were resolving their problems. Close to one-third (29 percent) of them reported that their job training was delayed.

¹³⁴ The ISVs report that some employees did not have their work-authorization documents because they had failed to request them in a timely manner. In other cases, the delay reflects slow INS processing of these requests.

¹³⁵ The evaluation team is aware of several reasons that explain this underestimate. In some cases, employers fail to provide the proper referral letter to their employees. In other cases, the employee does not give the letter to Federal officials and the Federal employee does not recognize that the case is part of the pilot program and may, therefore, not process the paperwork accordingly. It is also possible that the employee does not see a need to present the employer letter. For example, employees who have not informed SSA of a name change may simply bring proof of the name change to SSA and then report back to their employers that they have resolved the difficulty without bothering to give SSA their letters.

- *Referral forms:* Of the pilot employees who decided to clear up their work-authorization problems, 72 percent reported receiving a referral form from their employer to either SSA (53 percent) or INS (19 percent), as required by the procedures.¹³⁶ These reports are fairly consistent with the results of the employer mail survey, in which 83 percent of pilot users indicated that they always or most of the time gave employees the referral form as required. If employees are not provided with written notification, they may not be receiving all of the information necessary to address nonconfirmation properly.

These employee burdens are a concern to the evaluation team and to at least 16 percent of employers who claimed in the survey that employee burden was their main concern about the program. However, two important factors must be considered in interpreting the results. First, the overwhelming majority of employees whose status was verified had no direct involvement with the pilot system. Second, the estimates of financial and non-financial costs to employees are based on a small proportion of respondents who were notified of problems with their work authorization. If the average employee cost is based on all 970 respondents to the employee interview, including those who said they had no costs, the average cost would be a little over \$3.

From the Federal Government's perspective, the program's major anticipated benefits are decreased employment of individuals without work authorization and the deterrence of illegal immigration. These potential benefits are discussed in Chapter XI. As discussed in Chapter VI, many employers report that the program benefits them by providing an effective way of performing their verification obligations under immigration law and makes them more comfortable that they are correctly screening employees. Employees, employers, and SSA also receive benefits from the resolution of errors in SSA records that go beyond the pilot program. Employers avoid future problems in reconciling their payroll records with SSA's records, and employees are assured that their earnings are accurately credited to their SSA retirement accounts.

E. SUMMARY

It is clear from the analyses to date that the Basic Pilot system, as currently formulated, entails substantial expenses on the part of the Federal Government, employers, and employees. The total financial costs to the Federal Government as of April 2000 are estimated to be approximately \$10 million. Annual operating expenses for the Federal Government amount to \$2.3 million, and the remainder was for start-up costs. Estimated employer costs varied considerably among employers (from \$0 to \$15,000 for start-up costs and from \$0 to \$33,000 for annual operating expenses). The average employer spent a little under \$800 for start-up and approximately \$1,800 annually to operate the system.

On average, the cost of employment verification to employees is on the order of \$3 per employee hired. However, these costs are borne by a relatively small percentage of

¹³⁶ Generally, only one of these forms is necessary.

employees, who reported spending as much as \$2,000 to clear up their work-authorization problems after receiving a tentative nonconfirmation from the pilot system. Further, employees may incur non-trivial costs of which they are not aware. For example, they may be turned down for a job because of prescreening, or the employer may take such adverse actions as restricting training or firing an employee who receives a tentative nonconfirmation without informing the employee of the reason for such action. Chapter XII further explores the costs and benefits of the current system and estimates the likely costs and benefits of alternative types of expanded systems of electronic verification of work authorization.

